



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 27, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Center National Bank
Charter Number 20448
301 North Ramsey
Litchfield, Minnesota 55355**

**Comptroller of the Currency
Minneapolis Duty Station
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of the **Center National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 27, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: The institution is rated "**Satisfactory Record of Meeting Community Credit Needs.**"

Center National Bank is helping to meet the credit needs of its assessment area.

- The bank's eight quarter average loan-to-deposit ratio exceeds both bank and local peer ratios.
- The bank has a good record of lending within its assessment area- Consumer originations within the assessment area are strong. However, commercial and agriculture loans, which comprise 52% of the bank's lending portfolio are located throughout Meeker County as well as several surrounding counties.
- The bank does an excellent job of lending to low- and moderate-income borrowers and to businesses and farms of different sizes.

DESCRIPTION OF INSTITUTION

Center National Bank (CNB) is a \$71 million bank located in downtown Litchfield, Minnesota. The bank has an attached drive-up facility. There are two automated teller machines (ATMS) located in a local convenience store and a grocery store. The bank does not have any branches. The bank offers a full range of traditional commercial and personal banking services. Consumer loans comprise 28% of the total loan portfolio. In addition, commercial loans equal 28%, agricultural loans equal 27% and real estate loans for 1 to 4 family residences equal 15% of the portfolio. There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

Center National Bank is owned by CNB Financial Corporation, a one bank holding company. The holding company has several non-bank affiliates through the common ownership of the holding company's principal shareholder.

Center National Bank was rated "Satisfactory record of meeting community credit needs" at its last CRA examination in July 1994.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) of Meeker County, Minnesota is located approximately 75 miles west of the Minneapolis/St. Paul metropolitan area. The assessment area meets all regulatory requirements and consists of all six block numbering areas (BNAS) located in Meeker County. All six of the BNAs in the assessment area have been designated as middle income- Based on 1990 census information, the population of the bank's assessment area is 20,846. The U.S. Department of Housing and Urban Development (HUD) updated median family income for Meeker County is \$38,400. Within the assessment area 23% of households are low-income, 15% moderate-income, 20% middle-income, and 42% upper-income. Senior citizens represent 17% of the population. The housing stock in the area is older with a median age of 36 years and a median value of \$49,200.

The substantial majority of all businesses and farms have annual gross revenues less than \$1 million. Unemployment is very low at 2%. The assessment area is primarily dependent on agriculture and ag-related businesses. Employment for local residents is diverse including retail trade, services, and manufacturing/construction. The community is further enhanced by its proximity to the Minneapolis-St. Paul metropolitan area. The economy is stable.

Four other community banks and one regional bank branch in the assessment area provide competition for the bank. The community banks range in size from \$14 million to \$30 million.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA;

Loan-to-Deposit Analysis

The bank's loan-to-deposit ratio is more than reasonable, based on its competitive environment. In the previous eight quarters, the bank has reinvested an average of 75% of its deposits in loans. This compares favorably with the bank's national peer group (banks of similar size, type and location) average of 62% for the same period. Center National Bank is ranked first when compared with four other competing banks within the assessment area. The competing banks average loan-to-deposit ratios over the previous eight quarters ranged from 56% to 68%, with an average of 64%.

Comparison of Credit Extended Inside and Outside of the Assessment Area

A majority of all loans are located in the assessment area. We reviewed three samples of loans to determine the location and pattern of loans originated in the assessment area: consumer, commercial and agriculture. These loans comprise 83% of the total portfolio. We reviewed a sample of loan originations since January 1, 1996 through the time of our examination (May 1997). The following tables summarize our findings of loans located inside and outside of the assessment area. The bank originates a large amount of consumer loans through various local dealerships, which are located in Meeker County and other surrounding counties. These loans did not negatively impact the bank's consumer loan ratios.

Consumer Loan Originations		
	1996	YTD 1997
Inside AA (#)	94	60
Inside AA (%)	72%	75%
Outside AA (#)	36	20
Outside AA (%)	28%	25%

We reviewed approximately 13% of consumer loan originations since January 1, 1996 to analyze consumer lending inside and outside of the bank's assessment area. The above table summarizes that a substantial majority of the bank's consumer loans, by number of loans originated are located within the assessment area.

Commercial and Agriculture Loan Originations				
	Commercial Loans		Agriculture Loans	
	1996	YTD 1997	1996	YTD 1997
Inside AA (#)	7	4	7	8
Inside AA (%)	53.85%	44.44%	36.84%	34.78%
Outside AA (#)	6	5	12	15
Outside AA (%)	46.15%	55.56%	63.16%	65.22%

The table above represents 18% of all commercial and agriculture loan originations since January 1, 1996. The analysis of the commercial and agriculture portions of the portfolio show that the majority of these types of loans are not originated in Meeker County, but are located throughout surrounding counties. Management of CNB has made a strategic decision to originate loans outside their assessment area as it benefits the bank and the customer. This decision by management does not negatively impact our assessment of the bank's CRA performance. Our analysis indicates that a substantial majority of commercial and agriculture loans are not located in the assessment area. This performance therefore meets, rather than exceeds, the standard for satisfactory performance.

In addition to our analysis, management has performed their own internal zip code analysis on all loans in the portfolio as of November 1, 1996. All of the zip codes included in Meeker County were analyzed. This showed that 55% of all loans by number, and 47% by dollar, were located in the assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Management has responded favorably to the credit needs of the bank's assessment area by originating loans to low- and moderate-income borrowers as well as to small businesses and small farms. Examiners performed an income analysis on a sample of loans originated during 1996 and year-to-date 1997. The same loans used in the samples for lending within the assessment area were used for this analysis. However, income and revenue information was not readily available for all of the loans. The following tables illustrate the bank's loan penetration to borrowers of different income levels and businesses and farms with different gross annual revenues.

Consumer Loans		
INCOME	% BY	% OF AA POPULATION
Low	23%	23%
Moderate	26%	16%
Middle	24%	20%
Upper	26%	42%
Sample of 141 loans made in 1996 and 1997		

Commercial and Farm	
GROSS	% BY NUMBER
<\$100M	8%
\$101M - \$250M	50%
\$251M - \$500M	42%
\$501M - \$750M	0%
\$751M - \$1MM	0%
>\$1MM	0%
Sample of 24 new loans made in 1996 and 1997	

The 141 consumer loan originations with useable income information represents approximately 9% of all originations for 1996 and YTD 1997. The sample exceeds the requirements for satisfactory for lending to low- and moderate-income borrowers in the assessment area. Although all of the BNAs located in the assessment area have been designated middle-income, low-income households comprise 23% of the area. The table above shows that CNB originated 23% of its consumer loans to low-income borrowers. The bank also exceeded the demographics for moderate-income borrowers as management has made 26% of its consumer loans to this class, while they only represent 16% of the local population. This is an excellent representation of lending to low- and moderate-income borrowers, as not all of the borrowers within these categories would qualify for consumer credit.

The commercial and agriculture loan sample with annual gross revenue information available represents 7% of the total originations since January 1, 1996. This analysis shows that all of the loans in the sample were to businesses and farms with revenues under \$500M. An additional review of 61% of commercial and farm loan originations since January 1, 1996, using loan size as a proxy, shows that 91% of loan originations were for amounts under \$100M. The CRA regulation allows using loan size as a proxy and assumes that gross annual revenues generally correlates with the size of the business or farm. This loan size analysis indicates CNB does a good job of lending to small businesses and small farms.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans is not meaningful for this bank. All of the BNAs located within the assessment area have been designated as middle-income.

Compliance with Antidiscrimination Laws and Regulations

Center National Bank is in compliance with the applicable antidiscrimination laws and regulations. We found no violations of the fair lending laws at this examination.

Qualified Investments

Center National Bank has invested \$90,000 in the Litchfield, Minnesota Economic Development Authority Housing Development general obligation bond issue. The funds are to be used to develop a 45-unit multi-family housing complex for elderly residents, adjacent to a nursing home. CNB has also made a \$12,000 loan, which they treat as a donation, to the Meeker County Development Corporation for industrial development. This will contribute to job growth in the assessment area. CNB has made additional loans totaling \$178,000 to Habitat for Humanity, Board of Social Ministry (nursing home), Crow River Youth, and Meeker County Community Homes (home for handicap). All of the loans benefit sections of the community which are historically more likely to be low- or moderate-income individuals.